

Life Insurance Actuarial Audit



Item 3B – Group Insurance Board

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Action Item

ETF recommends the Board accepts the State of Wisconsin Department of Employee Trust Funds Group Life Insurance Program 2024 Group Life Insurance Actuarial Audit and Securian's responses.

Background

ETF retained Milliman to perform an actuarial audit of the Life Insurance Program to:

- Review the financial results presented to the Board in the 2024 Financial Experience Report
- Review the Program's reserves, funding and investments strategies
- Review rate methodology for compliance with the federal Older Workers Benefit Protection Act

Findings

Conclusions

Recommendations

- Additional discussions between ETF, Securian, and Milliman to address the recommendations

Actuarial Audit of Wisconsin Group Life Insurance Program

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Wisconsin Group Life Insurance Program

Benefits

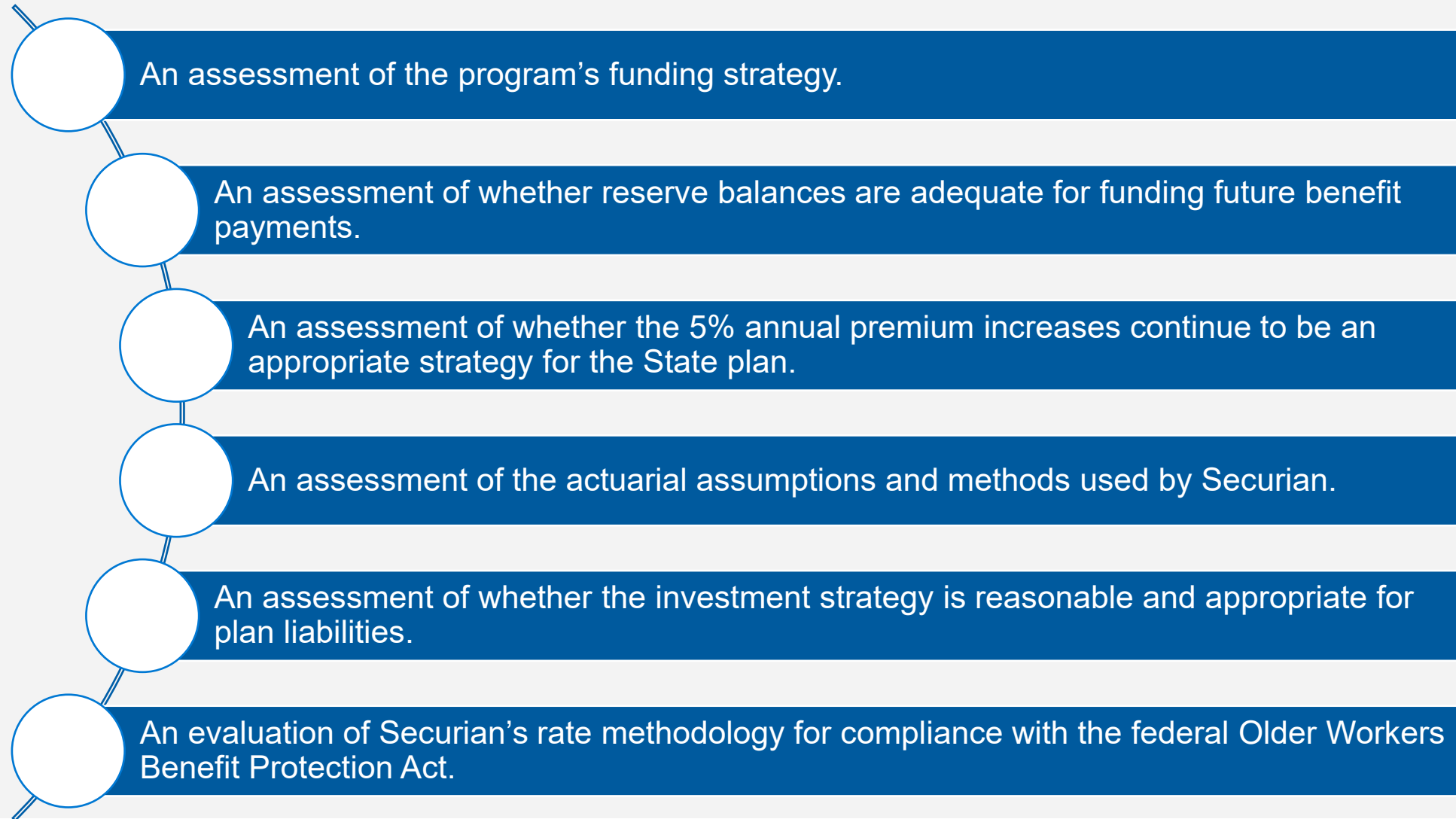
- Includes coverage for active employees and retirees.
- Coverage is voluntary and includes basic life, supplemental life, additional life, and accidental death and dismemberment (AD&D) insurance. Employees may also elect spouse and/or dependent life insurance.
 - Basic life benefit amount: 100% of annual salary
 - Supplemental life benefit amount: 100% of basic benefit amount
 - Additional life benefit amount: Up to 300% of basic benefit amount
 - Spouse life benefit amount: \$10,000 or \$20,000
 - Dependent life benefit amount: \$5,000 or \$10,000
 - AD&D benefit amount: Up to 100% of the total life insurance amount
- Employees must have basic life insurance to be eligible for coverage in the other plans.
- Coverage features benefit reduction schedules that begin at age 65. These reductions are delayed until the earlier of retirement or age 70 for active employees above age 65. Supplemental and additional insurance terminate at the later of age 65 or retirement, but not later than age 70.
- State and Local benefits are mostly equivalent, except that the Local plan features an additional benefit reduction schedule option.

Wisconsin Group Life Insurance Program

Premiums

- Premium contributions are made by active employees, the State, and participating local employers.
 - Employee contributions: Premium rates vary by attained age.
 - State contributions: 65.25% of employee contributions for basic insurance and 37.25% of employee contributions for supplemental insurance. State contributions cover costs for active employees and retirees.
 - Local employer contributions: 20% to 40% of employee contributions depending on the benefit reduction schedule elected by the employer.
- Retiree benefits are funded in advance by premium contributions from employers and pre-age-65 retirees, and from experience credits (if any) from pre-age-65 retiree experience. These amounts are deposited into a Premium Deposit Fund (PDF) for the purpose of paying future retiree claims and expenses.
- Favorable experience on the pre-retirement plan (including AD&D and other related benefits) is credited to a premium stabilization reserve (PSR), which is also available for funding future retiree benefits if the PDF proves inadequate.

Purpose and Scope



Conclusions

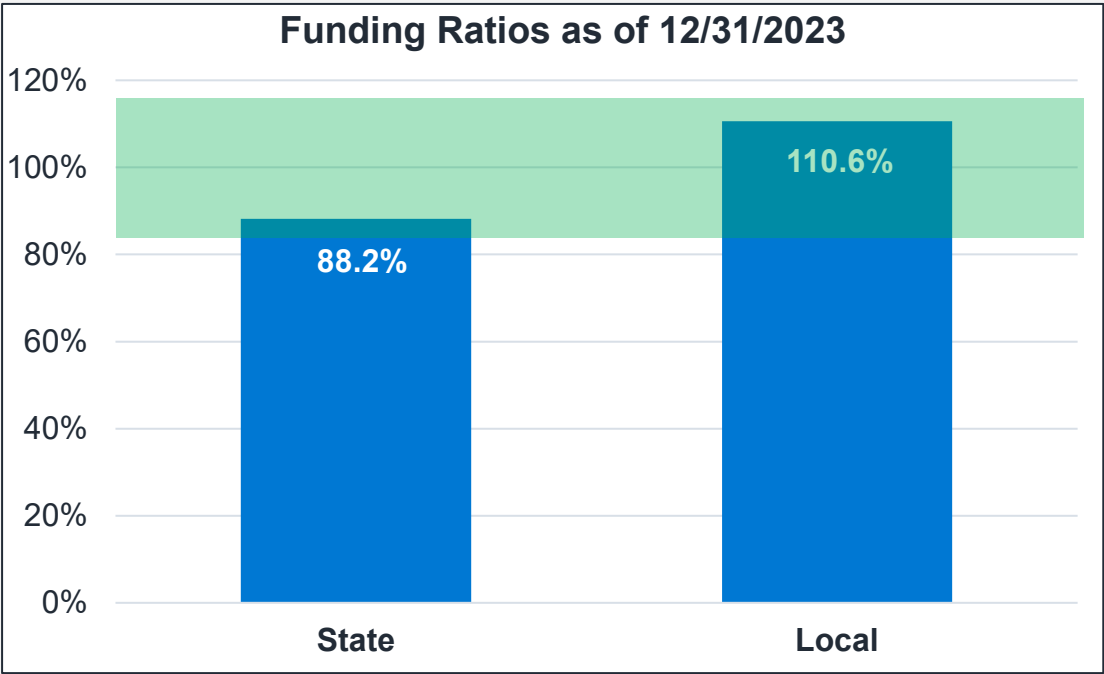
1. The funding strategy for the group life plan is reasonable. Both the State and Local funding ratios (i.e., assets divided by liabilities) were within the tolerable range of 85% - 115% as of December 31, 2023.
2. Although the funding ratio for the State plan was below the target of 100% as of December 31, 2023, it has been within tolerable levels since 2019 when the 5% annual premium rate increases began. For this reason, we believe the annual rate increases continue to be an appropriate strategy for the State plan in order to achieve the target funding level in future years.
3. The funding ratio for the Local plan was 110.6% as of December 31, 2023, meaning reserves were considered adequate for covering future benefit payments as of the valuation date.
4. The assumptions and methods used by Securian are generally reasonable and appropriate for the group life insurance program. They are also consistent with the program's funding objectives and with generally accepted actuarial standards and practices. However, Securian's pooling charges appear higher than necessary based on historical experience.
5. Securian's investment strategy seems reasonable and appropriate for the program's liabilities.
6. There may be compliance issues with the Older Workers Benefit Protection Act under the current benefit reduction schedules.

Recommendations

1. We recommend that ETF ask Securian to recalibrate its pooling charges to better align these charges with pooled claim levels. ETF may also wish to consider the possibility of eliminating pooling from the experience rating formula.
2. We recommend that ETF ask Securian about the administrative expenses included in the 2023 Financial Report. We compared expenses in the Financial Report to the expenses in the insurance agreement, and we noticed that the expenses in the Financial Report were higher than the expenses from the agreement for the Local plan.
3. We recommend that ETF perform an equal cost test to assess compliance with the federal Older Workers Benefit Protection Act.
4. We recommend that Securian update its documentation to include all the factors used to compute disability reserves. We also recommend that Securian consider using the 2023 Group Life Waiver of Premium Valuation Table for calculating disability reserves.
5. We recommend that Securian include additional disclosures and documentation in its reports, which may be required under various Actuarial Standards of Practice (ASOPs).

Assessment of the Group Life Insurance Program's Funding Strategy

- The funding strategy for the State and Local plans includes a target funding level of 100% with a tolerable range of +/- 15%.
- The funding ratios for the State and Local plans were within the tolerable range as of December 31, 2023:



Assessment of the 5% Annual Premium Increases for the State Plan

	2018	2019	2020	2021	2022	2023
Assets (\$ millions)						
Retiree Premium Deposit Fund	\$356.7	\$348.3	\$334.1	\$319.9	\$303.6	\$288.1
Active Stabilization Reserve	\$46.5	\$51.6	\$57.0	\$61.5	\$67.7	\$79.6
Total	\$403.3	\$399.9	\$391.1	\$381.4	\$371.3	\$367.7
Liabilities (\$ millions)						
Post-Age 65 Retirees	\$376.2	\$411.8	\$448.3	\$473.8	\$460.6	\$458.2
Pre-Age 65 Retirees	\$61.1	\$58.4	\$57.7	\$57.7	\$52.6	\$47.7
Active Employees	\$105.4	(\$66.7)	(\$100.9)	(\$84.8)	(\$93.4)	(\$88.9)
Total	\$542.7	\$403.5	\$405.2	\$446.6	\$419.7	\$417.0
Unfunded Accrued Liability (\$ millions)	\$139.4	\$3.6	\$14.1	\$65.2	\$48.5	\$49.3
Funding Ratio	74.3%	99.1%	96.5%	85.4%	88.5%	88.2%

- The 5% annual premium rate increases continue to be an appropriate funding strategy for the state plan.
- The funding ratio has been within the tolerable range of 85% - 115% since 2019, when the benefit increases began.

Assessment of the Actuarial Assumptions and Methods Used by Securian

Pooling Methods

- The pooling level is \$500,000 – i.e., claims are capped at \$500,000 in Securian’s experience rating formula.
- The pooled claims (i.e., amounts above \$500,000 per claim) are replaced by Securian’s estimate of the cost for claims above the pooling limit.
- Pooled claims and pooling charges from 2008 through 2023:

Financial Component in the Experience Analysis	Active Employees			Retirees		
	State	Local	Total	State	Local	Total
A. Pooled Claims	\$6,606,146	\$917,381	\$7,523,527	\$65,054	\$170,107	\$235,161
B. Pooling Charges	\$24,390,155	\$2,848,283	\$27,238,438	\$1,923,025	\$428,413	\$2,351,438
C. Difference (B – A)	\$17,784,009	\$1,930,902	\$19,714,911	\$1,857,971	\$258,306	\$2,116,277

- Pooling charges were approximately \$20 million higher than pooled claims for active employees and approximately \$2 million higher for retirees.
- Pooling charges were approximately \$20 million higher than pooled claims for the State plan and approximately \$2 million higher for the Local plan.
- For the State plan, pooling charges exceeded pooled claims in every year between 2008 and 2023, for both active employees and retirees. For the Local plan, pooling charges exceeded pooled claims in every year except 2021 for active employees and 2022 for retirees.

Assessment of the Actuarial Assumptions and Methods (Continued)

Expenses

- There are differences between the administrative expense charges in the insurance agreement and Securian’s 2023 Financial Report:

Administrative Expenses as a Percentage of Annual Premium				
Coverage Type	State Plan		Local Plan	
	Agreement	Financial Report	Agreement	Financial Report
Pre-retirement	3.61%	3.54%	8.05%	8.65%
Spouse/Dependent	2.05%	2.05%	5.80%	6.34%

Disability Reserves

- Documentation of the claim termination rate basis seems incomplete, based on our reserve replication analysis.
- Disability reserves are calculated by Securian using older valuation tables with adjustments to estimate recent experience and trends. There is a new industry table that may be more appropriate (i.e., 2023 Group Life Waiver of Premium Valuation Table) as the basis for these calculations.

ASOP’s

- Securian’s reports should include additional disclosures and documentation that are required under various Actuarial Standards of Practice (ASOPs).

Assessment of Investment Strategies

Asset Class	Actual Allocation as of 12/31/2023	Target Allocation
Government	0%	0%
ABS	2%	3%
CMBS	24%	22%
Agency MBS	10%	10%
Commercial Whole Loans	26%	25%
Municipals	0%	0%
Investment Grade Corporate Bonds (incl. Long)	37%	40%
High Yield Corporate Bonds	0%	0%
Equity	0%	0%

- Actual allocations were very close to the target allocations as of December 31, 2023.
- Target allocations are consistent with industry standards which exclude riskier assets (e.g., equity) and include less risky assets (e.g., investment grade corporate bonds).

Compliance with the Older Workers Benefit Protection Act

- There are no compliance issues for employee benefit plans that provide equal benefits at all ages.
- The State and Local group life plans include benefit reduction schedules for older employees, however.
- Plans that provide lower benefits to older employees can comply with OWBPA if the cost of these benefits is no less than the cost of benefits provided to younger workers.
- ETF should perform an equal cost test to determine if the group life plan is compliant with OWBPA.

Considerations for an Equal Cost Test:

- Must show claim costs are at least as great for older workers as they are for younger workers.
- The protected class of employees is over age 40.
- The analysis can be performed in 5-year age bands with flexibility on the exact bands chosen.
- Employers may consider results across a package of employee benefits including more than just group life insurance.

Limitations

Milliman relied on information provided by the Wisconsin Department of Employee Trust Funds (ETF) and Securian. If this information is inaccurate or incomplete, our results may be affected.

The estimated liabilities and projections included in this presentation were developed by Securian. We have reviewed the projections for reasonableness and appropriateness to the intended purpose and compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOPs). An in-depth analysis of Securian's models and valuation assumptions was beyond the scope of work for this audit.

Milliman's work product was prepared exclusively for ETF and is not for the use or benefit of any third party for any purpose.

We, Daniel Skwire and Paul Correia, are consulting actuaries with Milliman. We are members of the American Academy of Actuaries and meet its qualification standards to render the actuarial opinions contained herein.



Thank you

Action Item

ETF recommends the Board accepts the Life Insurance Program 2024 Group Life Insurance Actuarial Audit and Securian's responses.

A man with a beard, wearing a light blue long-sleeved shirt, is seated in a wheelchair. He is smiling and holding a black smartphone to his ear with his right hand. He is in an office setting. In the background, another man in a white shirt is seated at a desk, talking on a phone and pointing towards a computer screen. A woman is standing behind him. On the desk in the foreground, there is a laptop, a water bottle, and a sign that says "SERVICE COMMERCIAL". The entire image has a blue tint.

Questions?

Thank you



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